

## MICROLOAN AMENDMENTS AND MODERNIZATION ACT

SEPTEMBER 4, 2007.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Ms. VELÁZQUEZ, from the Committee on Small Business,  
submitted the following

### R E P O R T

[To accompany H.R. 3020]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business, to whom was referred the bill (H.R. 3020) to amend the Small Business Act to improve the Microloan program, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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### AMENDMENT

The amendment is as follows:  
Strike all after the enacting clause and insert the following:

**SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

(a) **SHORT TITLE.**—This Act may be cited as the “Microloan Amendments and Modernization Act”.

(b) **TABLE OF CONTENTS.**—The table of contents for this Act is as follows:

Sec. 1. Short title; table of contents.

**TITLE I—MICROLOAN**

Sec. 101. Transmission of credit reporting information.

Sec. 102. Flexible credit.

Sec. 103. Intermediary eligibility requirements.

Sec. 104. Average loan size.

Sec. 105. Technical assistance.

Sec. 106. Entrepreneurs with disabilities.

**TITLE II—PRIME**

Sec. 201. Short title.

Sec. 202. PRIME.

Sec. 203. Conforming repeal.

**TITLE I—MICROLOAN****SEC. 101. TRANSMISSION OF CREDIT REPORTING INFORMATION.**

Section 7(m) of the Small Business Act (15 U.S.C. 636(m)) is amended by adding at the end the following:

“(14) **CREDIT REPORTING INFORMATION.**—The Administrator shall establish a process, for use by a lender making a loan to a borrower under this subsection, under which the lender provides to the major credit reporting agencies the information about the borrower that is relevant to credit reporting, such as the payment activity of the borrower on the loan.”.

**SEC. 102. FLEXIBLE CREDIT.**

Section 7(m) of the Small Business Act (15 U.S.C. 636(m)) is amended, in each of paragraphs (1)(B)(i) and (11)(B), by striking “short-term,”.

**SEC. 103. INTERMEDIARY ELIGIBILITY REQUIREMENTS.**

Section 7(m)(2) of the Small Business Act (15 U.S.C. 636(m)(2)) is amended—

(1) in subparagraph (A) by striking “paragraph (10)” and inserting “paragraph (11)”; and

(2) by amending subparagraph (B) to read as follows:

“(B) has—

“(i) at least—

“(I) 1 year of experience making microloans to startup, newly established, or growing small business concerns; or

“(II) 1 full-time employee who has not less than 3 years experience making microloans to startup, newly established, or growing small business concerns; and

“(ii) at least 1 year of experience providing, as an integral part of its microloan program, intensive marketing, management, and technical assistance to its borrowers.”.

**SEC. 104. AVERAGE LOAN SIZE.**

Section 7(m) of the Small Business Act (15 U.S.C. 636(m)) is amended by striking “\$7,500” and inserting “\$10,000” in each of the following places: paragraph (3)(F)(iii), paragraph (6)(C)(i), and paragraph (6)(C)(ii).

**SEC. 105. TECHNICAL ASSISTANCE.**

Section 7(m)(4)(E) of the Small Business Act (15 U.S.C. 636(m)(4)(E)) is amended as follows:

(1) **PRE-LOAN.**—Clause (i) is amended by striking “25 percent” and inserting “35 percent”.

(2) **THIRD PARTY CONTRACTS.**—Clause (ii) is amended by striking “25 percent” and inserting “35 percent”.

**SEC. 106. ENTREPRENEURS WITH DISABILITIES.**

Section 7(m)(1)(A)(i) of the Small Business Act (15 U.S.C. 636(m)(1)(A)(i)) is amended by inserting “disabled,” before “and minority entrepreneurs”.

## TITLE II—PRIME

### SEC. 201. SHORT TITLE.

This title may be cited as the “Program for Investment in Microentrepreneurs Act” or the “PRIME Act”.

### SEC. 202. PRIME.

The Small Business Act is amended—

- (1) by redesignating section 37 as 99; and
- (2) by inserting after section 36 the following:

#### “SEC. 37. PRIME PROGRAM.

“(a) DEFINITIONS.—For purposes of this section, the following definitions shall apply:

“(1) CAPACITY BUILDING SERVICES.—The term ‘capacity building services’ means services provided to an organization that is, or that is in the process of becoming, a microenterprise development organization or program, for the purpose of enhancing its ability to provide training and services to disadvantaged entrepreneurs.

“(2) DISADVANTAGED ENTREPRENEUR.—The term ‘disadvantaged entrepreneur’ means a microentrepreneur that is—

- “(A) a very low-income person;
- “(B) a low-income person; or
- “(C) an entrepreneur that lacks adequate access to capital or other resources essential for business success, or is economically disadvantaged, as determined by the Administrator.

“(3) COLLABORATIVE.—The term ‘collaborative’ means 2 or more nonprofit entities that agree to act jointly as a qualified organization under this section.

“(4) INDIAN TRIBE.—The term ‘Indian tribe’ means any Indian tribe, band, pueblo, nation, or other organized group or community, including any Alaska Native village or regional or village corporation, as defined in or established pursuant to the Alaska Native Claims Settlement Act, which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

“(5) INTERMEDIARY.—The term ‘intermediary’ means a private, nonprofit entity that seeks to serve microenterprise development organizations and programs as authorized under subsection (d).

“(6) LOW-INCOME PERSON.—The term ‘low-income person’ means a person having an income, adjusted for family size, of not more than—

- “(A) for metropolitan areas, 80 percent of the area median income; and
- “(B) for nonmetropolitan areas, the greater of—
  - “(i) 80 percent of the area median income; or
  - “(ii) 80 percent of the statewide nonmetropolitan area median income.

“(7) MICROENTREPRENEUR.—The term ‘microentrepreneur’ means the owner or developer of a microenterprise.

“(8) MICROENTERPRISE.—The term ‘microenterprise’ means a sole proprietorship, partnership, or corporation that—

- “(A) has fewer than 5 employees; and
- “(B) generally lacks access to conventional loans, equity, or other banking services.

“(9) MICROENTERPRISE DEVELOPMENT ORGANIZATION OR PROGRAM.—The term ‘microenterprise development organization or program’ means a nonprofit entity, or a program administered by such an entity, including community development corporations or other nonprofit development organizations and social service organizations, that provides services to disadvantaged entrepreneurs.

“(10) POVERTY LINE.—The term ‘poverty line’ means the official poverty line defined by the Office of Management and Budget based on the most recent data available from the Bureau of the Census. The Administrator shall revise annually (or at any shorter interval the Administrator determines to be feasible and desirable) the poverty line. The required revision shall be accomplished by multiplying the official poverty line by the percentage change in the Consumer Price Index for All Urban Consumers during the annual or other interval immediately preceding the time at which the revision is made.

“(11) TRAINING AND TECHNICAL ASSISTANCE.—The term ‘training and technical assistance’ means services and support provided to disadvantaged entrepreneurs, such as assistance for the purpose of enhancing business planning, marketing, management, financial management skills, and assistance for the purpose of accessing financial services.

“(12) VERY LOW-INCOME PERSON.—The term ‘very low-income person’ means having an income, adjusted for family size, of not more than 150 percent of the poverty line.

“(b) ESTABLISHMENT OF PROGRAM.—The Administrator shall establish a microenterprise technical assistance and capacity building grant program to provide assistance from the Administration in the form of grants to qualified organizations in accordance with this section.

“(c) USES OF ASSISTANCE.—A qualified organization shall use grants made under this section—

“(1) to provide training and technical assistance to disadvantaged entrepreneurs;

“(2) to provide training and capacity building services to microenterprise development organizations and programs and groups of such organizations to assist such organizations and programs in developing microenterprise training and services;

“(3) to aid in researching and developing the best practices in the field of microenterprise and technical assistance programs for disadvantaged entrepreneurs; and

“(4) for such other activities as the Administrator determines are consistent with the purposes of this section.

“(d) QUALIFIED ORGANIZATIONS.—For purposes of eligibility for assistance under this section, a qualified organization shall be—

“(1) a nonprofit microenterprise development organization or program (or a group or collaborative thereof) that has a demonstrated record of delivering microenterprise services to disadvantaged entrepreneurs;

“(2) an intermediary;

“(3) a microenterprise development organization or program that is accountable to a local community, working in conjunction with a State or local government or Indian tribe; or

“(4) an Indian tribe acting on its own, if the Indian tribe can certify that no private organization or program referred to in this paragraph exists within its jurisdiction.

“(e) ALLOCATION OF ASSISTANCE; SUBGRANTS.—

“(1) ALLOCATION OF ASSISTANCE.—

“(A) IN GENERAL.—The Administrator shall allocate assistance from the Administration under this section to ensure that—

“(i) activities described in subsection (c)(1) are funded using not less than 75 percent of amounts made available for such assistance; and

“(ii) activities described in subsection (c)(2) are funded using not less than 15 percent of amounts made available for such assistance.

“(B) LIMIT ON INDIVIDUAL ASSISTANCE.—No single person may receive more than 10 percent of the total funds appropriated under this section in a single fiscal year.

“(2) TARGETED ASSISTANCE.—The Administrator shall ensure that not less than 50 percent of the grants made under this section are used to benefit very low-income persons, including those residing on Indian reservations.

“(3) SUBGRANTS AUTHORIZED.—

“(A) IN GENERAL.—A qualified organization receiving assistance under this section may provide grants using that assistance to qualified small and emerging microenterprise organizations and programs, subject to such rules and regulations as the Administrator determines to be appropriate.

“(B) LIMIT ON ADMINISTRATIVE EXPENSES.—Not more than 7.5 percent of assistance received by a qualified organization under this section may be used for administrative expenses in connection with the making of subgrants under subparagraph (A).

“(4) DIVERSITY.—In making grants under this section, the Administrator shall ensure that grant recipients include both large and small microenterprise organizations, serving urban, rural, and Indian tribal communities serving diverse populations.

“(5) PROHIBITION ON PREFERENTIAL CONSIDERATION OF CERTAIN SBA PROGRAM PARTICIPANTS.—In making grants under this section, the Administrator shall ensure that any application made by a qualified organization that is a participant in the program established under section 7(m) does not receive preferential consideration over applications from other qualified organizations that are not participants in such program.

“(f) MATCHING REQUIREMENTS.—

“(1) IN GENERAL.—Financial assistance under this section shall be matched with funds from sources other than the Federal Government on the basis of not less than 50 percent of each dollar provided by the Administration.

“(2) SOURCES OF MATCHING FUNDS.—Fees, grants, gifts, funds from loan sources, and in-kind resources of a grant recipient from public or private sources may be used to comply with the matching requirement in paragraph (1).

“(3) EXCEPTION.—

“(A) IN GENERAL.—In the case of an applicant for assistance under this section with severe constraints on available sources of matching funds, the Administrator may reduce or eliminate the matching requirement in paragraph (1).

“(B) LIMITATION.—Not more than 10 percent of the total funds made available from the Administration in any fiscal year to carry out this section may be excepted from the matching requirement in paragraph (1), as authorized by subparagraph (A).

“(g) APPLICATIONS FOR ASSISTANCE.—An application for assistance under this section shall be submitted in such form and in accordance with such procedures as the Administrator shall establish.

“(h) RECORDKEEPING.—

“(1) IN GENERAL.—A qualified organization receiving assistance from the Administration under this section shall keep such records, for such periods as may be prescribed by the Administrator and necessary to disclose the manner in which any assistance under this section is used and to demonstrate compliance with the requirements of this section.

“(2) USER PROFILE INFORMATION.—The Administrator shall require each qualified organization receiving assistance from the Administration under this section to compile such data, as is determined to be appropriate by the Administrator, on the gender, race, ethnicity, national origin, or other pertinent information concerning individuals that utilize the services of the assisted organization to ensure that targeted populations and low-income residents of investment areas are adequately served.

“(3) ACCESS TO RECORDS.—The Administrator shall have access on demand, for the purpose of determining compliance with this section, to any records of a qualified organization that receives assistance from the Administration under this section.

“(4) REVIEW.—Not less than annually, the Administrator shall review the progress of each assisted organization in carrying out its strategic plan, meeting its performance goals, and satisfying the terms and conditions of its assistance agreement.

“(5) REPORTING.—

“(A) ANNUAL REPORTS.—The Administrator shall require each qualified organization receiving assistance from the Administration under this section to submit an annual report to the Administrator on its activities, its financial condition, and its success in meeting performance goals, in satisfying the terms and conditions of its assistance agreement, and in complying with other requirements of this section, in such form and manner as the Administrator shall specify.

“(B) AVAILABILITY OF REPORTS.—The Administrator, after deleting or redacting any material as appropriate to protect privacy or proprietary interests, shall make such reports submitted under subparagraph (A) available for public inspection.

“(i) IMPLEMENTATION.—The Administrator shall, by regulation, establish such requirements as may be necessary to carry out this section.”.

#### SEC. 203. CONFORMING REPEAL.

Subtitle C (15 U.S.C. 6901 et seq.) of title I of the Riegle Community Development and Regulatory Improvement Act of 1994 is repealed.

## II. PURPOSE AND SUMMARY

The purpose of H.R. 3020, The *Microloan Amendments and Modernization Act* (MAMA) is to encourage participation in the microloan program by qualified intermediaries (technical assistance providers and lenders) and aspiring entrepreneurs. The bill must provide new tools while modernizing old ones so that the program is better able to inform, educate and assist early stage small businesses to start up, grow, and create jobs. H.R. 3020 amends the program for the first time in eight years and responds to observations about barriers to participation indicated to the Committee by intermediaries/lenders, business participants and academics who

have studied the program. The Small Business Administration (SBA), which operates the program, is directed to help in this effort and to work with the intermediaries to find a way to report the repayment records of borrowers to major credit agencies and expand their capital access options. In addition, the Committee wants to move the Program for Investment in MicroEnterprise (PRIME) into the Small Business Act merging the program's authorization with most of the other programs run by the SBA.

To accomplish these purposes, H.R. 3020 encourages increased borrower participation in a number of ways that help aspiring entrepreneurs who might not qualify for credit under other programs by allowing them greater benefit from the unique microloan process. Also, it helps them by modernizing some of microloan's provisions to reflect the realities of lending to early stage small businesses in today's economy. First, the bill would make changes to the terms that can be offered on loans to allow more flexibility. The current statute requires intermediary lenders to offer only "short-term" loans. However, longer-term loans or revolving credit allowed by the bill would permit microbusiness participants to have greater latitude in managing their debt obligations, potentially increasing their profitability. The taxpayers' interests are still protected because the lender takes the first loss if the loan fails. In addition, disabled borrowers will be specifically identified as an intended beneficiary of microloans in the "purpose" section of the statute, in the same manner as current law recognizes women business owners, minority business owners and other deserving groups. Finally, SBA is directed to help ensure that repayment histories of the program's borrowers are duly reported. Creating a reporting mechanism, with the help of the SBA as directed by this bill, would enhance the credit score of microloan participants, permitting them to broaden their access to low-cost financing thus spurring the opportunity for continued growth using traditional capital sources.

H.R. 3020 promotes greater intermediary participation. It modernizes the statutory ceiling on the "average loan size" so more intermediaries can qualify for the most favorable interest rate (2 percent below federal borrowing rate on 5-year Treasury notes) raising it to \$10,000, the first raise since the program's inception. The bill also will help to increase the number of intermediaries that can meet the qualifications to participate in the microloan program. H.R. 3020 sets out the kind of equivalent lending and counseling experience that would allow a well-trained employee to help a new non-profit participant qualify as an intermediary.

In addition, existing restrictions on the use of technical assistance funds are burdensome and can hurt an intermediary's ability to deliver appropriate services to potential borrowers. The bill raises the amount of the technical assistance grant that can be used for this "pre-loan" assistance to 35 percent from its current level of 25 percent. Similarly in certain cases for start up businesses, outside training is absolutely necessary to ensure that the borrower is completely prepared to open a business. To cover this kind of contingency, the bill raises the amount of the technical assistance grant used for contracted assistance to 35 percent from 25 percent.

Finally, H.R. 3020 moves the entire PRIME initiative into the Small Business Act. The move should have no direct impact on the

operation of the program which is already administered by the SBA, but it does clarify that the SBA has authority to administer the PRIME program. Consolidating the elements of microenterprise assistance programs in one place and makes it easier for the Committee to oversee these initiatives in the future.

### III. BACKGROUND AND NEED FOR LEGISLATION

The SBA makes available small loans and technical assistance to very small, low-income businesses through the SBA's microloan program and technical assistance grants<sup>1</sup> and the PRIME. These initiatives form a significant portion of the lending and assistance available to such businesses from any source in the United States though private sources for microlending are available.<sup>2</sup> The microloan program targets loans to underserved low-income entrepreneurs using non-profit intermediaries who also provide the technical assistance. Overall, the program has experienced very few defaults from intermediary lenders and few defaults from borrowers. This kind of lending is necessary because of a gap in affordable capital that is available to very small, unproven businesses. Banks do not provide credit to individuals unless they have sufficient assets to protect the lender's assets. Even SBA's guaranteed loan program requires adequate amounts of collateral and a reasonable credit score. Other starters of small businesses use expensive credit card borrowing to start their businesses. But this alternative is not available to certain classes of entrepreneurs. For those budding entrepreneurs, the only available alternative is frequently a microloan—a small loan provided by non-profit institutions. Microlending and technical assistance for these businesses has received strong support over the years from the business community and Congress which has continued to fund the programs despite administration proposals to scale back or eliminate them. In fact, as a background to the consideration of this bill, the Executive Branch has proposed significant changes to the microloan program and has once again proposed eliminating the PRIME program for FY 2008. Citing redundancy and the cost of providing assistance with each loan, the administration proposal would fund microloans by increasing the interest paid by the intermediaries on federal funds and ultimately paid by the small business borrowers. Technical assistance funds would be eliminated from both microloan Program and PRIME but borrowers or potential borrowers could seek assistance from existing economic development partners, as in fact they can now, including the Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and SCORE.

#### *Microloan program—*

Congress created a microloan program in 1991 by adding § 7(m) to the Small Business Act.<sup>3</sup> The program makes funds available to nonprofit, community-based lenders who in turn make very small loans to eligible borrowers—mainly higher-risk, fledgling entre-

<sup>1</sup> Sec. 7(m) of the Small Business Act; 15 U.S.C. § 636(m)

<sup>2</sup> Elaine Edgecomb of the FIELD program at the Aspen Institute says there are about 554 microfinance programs in the U.S. of which 230 are lenders. Directory of U.S. Micro-Enterprise Programs (Field 2002).

<sup>3</sup> P.L. 102-140, approved October 28, 1991 as a Demonstration Program. The designation "demonstration" was removed by P.L. 105-135 approved Dec. 2, 1997.

preneurs, whose businesses generally serve their local communities. While the overall set of microenterprises numbers in the millions, and one in six employees in the United States works for a microenterprise,<sup>4</sup> businesses using the microloan program are different because they can not access affordable credit. These borrowers may be unable to get a traditional loan due to poor credit scores, no credit history, or a lack of business experience. As structured, the program reaches various important demographic groups that have not traditionally been well-served by the private sector lenders or even the SBA's 7(a) program. For example, microloans have been a source of capital for low-income women business owners (who receive about 44 percent of the loans) and minority borrowers (who receive over 50 percent of the loans.) Also, the loans tend to be geographically diverse. In the United States, roughly one-third of the microloans are made in rural areas.

The mechanics of the program are straightforward. SBA makes 10-year loans of up to \$750,000 to intermediaries who, in turn, make very small loans of less than \$35,000 for less than 6 years. If a loan is needed (in some cases a loan may be inadvisable) interest rates to the borrower can vary from 8 percent to 13 percent in the current market. The alternative for many businesses at this level is significantly higher credit card interest rates, or personal loan rates which decrease the chance for survival and growth. The average loan for the program is about \$13,000 and the funds can be used for any business purpose though, due to the small amount, the proceeds generally go to the essentials. Most times, additional funds are contingent upon the repayment of the previous loan, helping a new business to move along one step at a time. Some lenders use peer-review with groups of entrepreneurs working together to help businesses; others use trained staff even supplemented by third parties to help with strategy and business planning. Over 98 percent of the loans have been repaid, a similar percentage to most commercial institutions which lend to businesses with much higher credit scores.<sup>5</sup> The United States microloan intermediaries have loaned to 26,000 small business owners over the years and created more than 64,000 jobs since the program started. In 2006, SBA reports that micro-loans created or retained about 10,000 jobs and leveraged roughly \$30 million in loans when the funds intermediaries obtain from other sources are included.<sup>6</sup>

Congress and private financial institutions recognized the value of this program long ago and its adaptation to our economy to help low income communities and borrowers has been a strong success. The federal government has supported the concept of micro-lending abroad and it contributes millions of dollars in foreign aid that is used in international microlending programs.<sup>7</sup> Indeed, in one of its earliest acts after the fall of Saddam Hussein, the Coalition Provi-

<sup>4</sup> See the table compiled by the Office of Advocacy, SBA—[http://www.sba.gov/advo/research/us88\\_04.pdf](http://www.sba.gov/advo/research/us88_04.pdf). The amount is the total employees in firms with fewer than 5 employees plus all firms with 0 employees.

<sup>5</sup> Testimony of Elaine Edgecomb, FIELD Project, The Aspen Institute, before the Committee on Small Business, U.S. House of Representatives, Washington, DC, June 14, 2007.

<sup>6</sup> Testimony of *Friends of the SBA Microloan Program*, submitted for the record to the Committee on Small Business, U.S. House of Representatives, Washington, DC, June 14, 2007, p. 1.

<sup>7</sup> *Debate Stirs Over Tiny Loans for World's Poorest*, Cecelia Dugger, New York Times, April 29, 2004, pg. 1, "Over \$2 billion appropriated by Congress for micro credit programs since 1988".



sional Authority set up a \$17 million direct micro-loan fund specifically available to Iraqi entrepreneurs.<sup>8</sup>

*Program for investment in Micro-Entrepreneurs (PRIME)*

The PRIME allows SBA to award grants to non-profit, micro-enterprise development organizations, programs, collaborators, or intermediaries. These funds can be used by an organization to provide much-needed training and technical assistance to low-income and disadvantaged entrepreneurs interested in starting or expanding their own businesses. They also can be used to engage in capacity building activities targeted to micro-enterprise development organizations that serve low-income and disadvantaged entrepreneurs. PRIME is distinguished from other technical assistance support programs because it is not tied to a loan. In solely providing entrepreneurial development training programs, PRIME often is able to assist low-income small business owners with managing their capital needs without taking on unnecessary burdens. This function—while often overlooked—is essential to the growth of entrepreneurs in low-income communities. By providing marketing assistance or business structure and operation advice that helps plug the entrepreneur into the community an extended source of supporters and advisors are tapped that are available to help the business over the long haul.

*Addressing the problems in the Microloan program*

H.R. 3020 amends the SBA's microloan program in section 7(m) to address and correct problems that the Committee has identified as creating barriers to the participation of borrowers, potential borrowers and intermediaries. In addition, it modernizes some of its provisions to reflect what the Committee found were the realities of lending to early stage small businesses in today's economy. It also moves the PRIME program into the Small Business Act to allow for stronger, direct administration.

*Credit Reporting.*—The SBA is directed to help ensure that repayment histories are duly reported. Under the current system, if a borrower successfully repays an SBA microloan, as the vast majority do, repayment information is oftentimes not conveyed to credit reporting agencies. Intermediary lenders have too small a volume of loans to qualify for reporting with the major reporters. Creating a reporting mechanism, with the help of the SBA as directed by this bill, would enhance the credit score of microbusiness owners, broadening their access to low-cost financing thus spurring continued growth through traditional capital sources.

*More Flexible Lending Terms.*—H.R. 3020 encourages borrower participation by increasing benefits from the unique microloan process. The bill makes changes to the terms that can be offered on loans to allow more flexibility. Intermediary lenders must offer "short-term" loans under the current program structure, even though more flexibility for longer terms or revolving credit loans might better reflect the needs of the borrowers and enhance the suitability of their loans. Longer-term loans would permit microloan recipients to have greater latitude in managing their

<sup>8</sup>See Coalition Provision Authority Statement of Services and Programs for Economic Development; [http://www.cpa\\_iraq.org/economy/priv\\_sect\\_dvlpt.html](http://www.cpa_iraq.org/economy/priv_sect_dvlpt.html).

debt obligations, potentially increasing their profitability. Lenders play a larger role in adjusting the terms to meet the specific needs of the borrower. The taxpayers' interests are still protected because the lender will take the first loss if the loan fails.

*Experienced Intermediaries.*—To increase the number of intermediaries that can demonstrate the expertise necessary to participate in the microloan program the bill adjusts eligibility requirements. Current requirements to qualify as a microloan intermediary are too restrictive and can bar suitable participants who have significant, equivalent microlending experience. Some areas that could use this kind of program do not have qualified intermediaries that know the local markets denying businesses the opportunity to participate. In some cases, communities that want the program must wait until a non-profit group can accumulate the experience necessary to qualify. The *Microloan Amendments and Modernization Act* sets out the kind of equivalent experience that would allow a well-trained employee with significant expertise to help a new intermediary qualify for the microloan program. Microloan programs will be able to start lending more quickly while still ensuring that the technical advisers are well-trained.

*Average Loan Size.*—One criticism that has been leveled at the program is that it is unsustainable. Ultimately, such a structure might discourage non-profit groups who would have liked to participate because they are simply required to struggle too much to keep the program going. For example some of the thresholds provided in the law that apply to the money the intermediaries get and lend have not been raised since the program's inception. Congress set \$7500 as the average loan size and if an intermediary's average loan was below that amount, it could qualify for funds at the most favorable rate (currently 2% under the 5 year Treasury Bill rate). Raising these thresholds to \$10,000 helps keep the cost of borrowing low for intermediaries and provides a level that encourages greater intermediary (lender) participation. The program is more reasonable and useful to them. The higher threshold reflects inflation as well as the growing capital needs of even low income microbusinesses, and answers a common complaint from the microlending community.

*Expanded Use for Technical Assistance Grants.*—Existing restrictions on the use of technical assistance funds are burdensome and can hurt an intermediary's ability to deliver appropriate services to potential borrowers. For example, intermediaries are not allowed to use as much of the funds as they need to work with potential borrowers who may ultimately be advised that they do not need a loan. In some circumstances only one loan is made for every 10 aspiring business owners who receive counseling. Such assistance is still considered valuable to ensure that an entrepreneur is not encouraged to take on debt that is unnecessary. The bill raises the amount of the technical assistance grant that can be used for this "pre-loan" assistance to 35 percent. Similarly, the limits on grant funds used to hire third party contractors that provide specialized technical assistance to borrowers have also proved too restrictive. There are cases where outside training is absolutely necessary to ensure that the borrower is completely prepared to open a business; this can include licensing requirements or information about local environment or zoning restrictions. To cover this kind of con-

tingency, the bill raises the amount of the technical assistance grant that can be used for contracted assistance to 35 percent. Setting these percentages at a reasonable level encourages participation of good intermediaries and ensures that businesses get the advice they need.

*Entrepreneurs With Disabilities.*—Current law lists a host of purposes for the microloan program. Though it is not an exclusive list it does guide the operation of the program. The list includes women, low-income, veteran and minority business owners specifically. H.R. 3020 adds disabled entrepreneurs to this category. The program's participants have identified the disabled as a group that can use more of this type of assistance and the microloan system is one tool that can provide them with self-employment as an option for their financial independence.

*PRIME Incorporated Into the Small Business Act.*—Finally, Title II of the *Microloan Amendments and Modernization Act* moves the entire PRIME into the Small Business Act. This simply removes the PRIME from its current location isolated in the United States Code as an adjunct to the Riegle Community Development and Regulatory Improvement Act of 1994<sup>9</sup> and adds it as an amendment to the Small Business Act to include its provisions. The move should have no direct impact on the operation of the program which is already administered by the SBA, but it does clarify that the SBA has authority to administer the PRIME program. The move consolidates the elements of microenterprise assistance programs in one place and makes it easier for the Committee to oversee these initiatives in the future. The moving of the PRIME Act was done in consultation with the Financial Services Committee.

#### CONCLUSION

The *Microloan Improvements and Modernization Act* provides solid improvements to an already strong program for underserved but deserving and determined entrepreneurs. It builds on the strengths of the existing programs and removes some of the small but frustrating barriers that have prevented small businesses from fully utilizing these SBA programs. Entrepreneurs are given the tools they need to succeed without unduly burdening taxpayers.

#### IV. HEARINGS

In the 110th Congress, the full Committee on Small Business held a hearing on June 14th, 2007 on the challenges facing the microloan program. Janet Tasker, the Deputy Associate Administrator of the SBA for Capital Access, provided the administration's plans for the future of the program and facts and data on the program's accomplishments. SBA strongly supported the capital access mission of the program but outlined plans to reduce the government investment by raising the cost of borrowing and eliminating technical assistance grants moving the counseling to the SBDC, WBC and SCORE programs. Also appearing was Ms. Lisa J. Servon—Associate Professor, The New School, New York. She testified that the microloan concept is worthy of government support but suggested that for its long term sustainability, Congress should be thinking of innovative ways to strengthen the program. Daniel

<sup>9</sup> 15 U.S.C. Section 6901 et seq.

Betancourt, CEO of Community First Fund in Lancaster, PA and Chairman of the Association for Enterprise Opportunity spoke about the changes intermediaries want and the differences between the 7(a) program and microloan program for lenders (his company does both). A borrower testifying was Edward “Champ” Hall, owner of Champ Hall’s Barber Shop and Barber College, Lancaster City, PA. After not being able to find any other loan funds to start a business, Mr. Hall used microloans to renovate and open a barber shop. He received technical assistance under the program and was successful enough to open a barber school (with a new loan) and employ six people. Finally Elaine Edgcomb, Director of the FIELD Study of the Aspen Institute testified that the microloan program when analyzed for its economic value to the community (rather than just its cost) is very reasonable. She argued that the government has a role to play in this kind of lending and that job creation, community support, and intense technical assistance that trains a good business must be taken into account to offset some program costs. Testimony was also submitted by the “*Friends of the SBA Microloan Program*” in strong support of amending and reauthorizing the program.

On July 12, 2007 the full Committee held a hearing on H.R. 3020, the *Microloan Amendments and Modernization Act*, which was attended by the Associate Administrator of the SBA for Capital Access, Dr. Michael Hager, who provided the administration’s views on H.R. 3020. In addition, three witnesses were invited to speak directly to the impact of the legislation on the microloan program. Kristie Darien, the Executive Director of the National Association of the Self Employed explained that her association is made up of very tiny businesses and their main complaint is that they have a very difficult time obtaining affordable capital. NASE strongly supports modernizing (and reauthorizing) the microloan program. Mr. Kevin Kelly of the Association of Enterprise Organizations testified that his members fully supported the amendments that raised the thresholds to recognize the impact of inflation and reduced the barriers for finding qualified intermediaries. Finally, Dr. Cordero-Guzman of Baruch College, CUNY, presented the highlights of his recent study that found that microlending can be a very valuable tool for starting small businesses. He also found that such programs are not economically sustainable as of yet in the United States without grants or contributions. Therefore, the government has a role to play in organizing and keeping the program going because of its benefits.

#### V. COMMITTEE CONSIDERATION

The Committee on Small Business met in open session on July 19, 2007 to consider H.R. 3020 and any amendments.

#### VI. COMMITTEE VOTES

The bill, H.R. 3020, the *Microloan Amendments and Modernization Act* was marked up by the Committee on Small Business on July 19, 2007. The Committee accepted an amendment in the nature of a substitute offered by Chairwoman Velázquez by voice vote at 10:23 a.m. No further amendments were offered. The bill was or-

dered reported as amended to the House of Representatives by a voice vote at 10:25 a.m.

## VII. SECTION-BY-SECTION ANALYSIS OF THE SMALL ENERGY EFFICIENT BUSINESS ACT—H.R. 3020

### *Section 1*

This section entitles the bill the *Microloan Amendments and Modernization Act* and sets out a table of contents.

#### TITLE I—MICROLOAN PROGRAM

### *Section 101. Transmission of credit scores*

The SBA must facilitate the transmission of credit reporting information by establishing a process so that intermediaries can provide information about borrowers' payment records to major credit reporting agencies. Successful borrowers should benefit from their good repayment records and thus, through market forces, expand their access to affordable capital. However, it is clear that most intermediaries conduct too few credit transactions to qualify for such reporting. To overcome this, the SBA will need to help the intermediaries in the program devise a method of providing and recording such records with the credit agencies. Whether this can best be accomplished by the SBA aggregating such data for reporting or by negotiating agreements for the intermediaries to collect the necessary information and report directly with credit agencies is left to the discretion of the SBA.

### *Section 102. Flexible credit*

The words "short-term" are removed from description of loans in § 7(m) of the Small Business Act. The intermediary and the borrower should be able to tailor the appropriate terms for the loan that meet the specific needs and sophistication of the borrower. Greater flexibility ultimately allows the borrower greater control in managing debt obligations and possibly enhanced profitability. The federal interest is protected because the intermediary is also at risk and therefore has a strong interest in agreeing to terms that are best for the borrower (to ensure full repayment) and the intermediary/lender (who would be the first to absorb any loss).

### *Section 103. Intermediary eligibility requirements*

The eligibility requirements for intermediaries are broadened to include consideration of equivalent experience of employees in the determination of program eligibility. This section adds that an intermediary can qualify for the program if it has a full time employee who has 3 years of microlending experience and 1 year of providing technical assistance including marketing and management. This is an alternative to the intermediary organization itself having direct experience, the current statutory requirement. The intent of this provision is to increase the number of intermediaries that can qualify for the program with no reduction in the quality and experience. If an aspiring intermediary (generally a non-profit organization) has no direct experience in microlending and technical assistance then it can hire trained employees with considerable, equivalent experience and still qualify.

*Section 104. Average loan size*

This section makes changes to three provisions of the microloan program increasing the threshold size for certain benefits and requirements. It raises the threshold for average loan size on loans made by an intermediary from \$7,500 to \$10,000. Under this new threshold, if the intermediary's average loan size is below \$10,000 it can receive the most favorable interest rate available on funds from the federal government (2 percent below the 5 year Treasury Bill rate). This section also raises the threshold for loans on which intermediaries can charge a higher rate up to \$10,000 from \$7,500. These thresholds, which have been frozen at the \$7,500 level for a decade, are being raised to reflect inflation and the realities of operating the microloan program.

*Section 105. Technical assistance*

*Pre-loan.*—The bill proposes to increase the amount of assistance that micro-intermediaries can provide to would-be entrepreneurs using funds from their federal technical assistance grants. Oftentimes microentrepreneurs need training, financial education and guidance before they can become good borrowers and many who are counseled in this way ultimately do not apply for or obtain loans. It is important to continue to support this pre-loan advice that has a substantial value to low-income entrepreneurs. Raising the amount of the grant money that can be used for this purpose to 35% will facilitate this specialized counseling.

*Third party contract.*—Also, this section of the bill increases the percentage of the technical assistance grant that can be spent on third party contractors that provide appropriate counseling and other services. As an integral part of starting a business, an entrepreneur may need some specialized training, financial education or counseling in preparation for receiving a loan. For example, the borrower may need the benefit of expertise on licensing requirements or local permitting and regulations that a general counselor cannot provide. It is intended that up to 35% of the funds from the technical assistance grant can be used by the intermediary to procure the services of third party contractors to meet the specialized needs of the borrower.

*Section 106. Entrepreneurs with disabilities*

The word “disabled” is added to the list of types of entrepreneurs in the Act’s “purposes” section that the microloan intermediaries should try to help. While it is not intended to be an exclusive list, it will be beneficial to the operation of the program to state specifically that intermediaries should give full consideration to disabled loan applicants that might benefit from starting a small, independent business they can operate themselves. The microloan program provides them another important option for their financial future. Though the current law does not prohibit such consideration, the microloan program can fill a particular need in this case and therefore it warrants a specific statutory enumeration alongside other deserving categories already listed.

TITLE 2—PROGRAM FOR INVESTMENT IN MICRO-ENTREPRENEURS  
(PRIME)

Title 2 removes the PRIME from its current location, isolated in the U.S. Code as an adjunct to the Riegle Community Development and Regulatory Improvement Act of 1994 (15 U.S.C. 6901 et seq.), and amends the Small Business Act to include its provisions. PRIME has been operated for a decade by the Administrator and the SBA as required by law. It is important that its provisions be put into the Small Business Act, which contains other laws, programs and Congressional directions for the SBA, and thus avoid confusion about PRIME's purposes and intended beneficiaries. The Committee also believes that the move facilitates the oversight of the program by the Committee and its review as part of the SBA's regular reauthorization process.

VIII. CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

JULY 26, 2007.

Hon. NYDIA M. VELÁZQUEZ,  
*Chairwoman, Committee on Small Business, House of Representatives, Washington, DC.*

DEAR MADAM CHAIRWOMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3020, the Microloan Amendments and Modernization Act.

If you wish further details on this estimate, we will be pleased to provide them.

The CBO staff contact is Susan Willie, who can be reached at 226–2860.

Sincerely,

PETER R. ORSZAG.

Enclosure.

*H.R. 3020—Microloan Amendments and Modernization Act*

Summary: H.R. 3020 would reauthorize the Program for Investment in Microentrepreneurs (PRIME) under the Small Business Act and make several changes to the Small Business Administration's (SBA's) microloan program. CBO estimates that implementing H.R. 3020 would cost less than \$500,000 in 2008 and \$7 million over the 2008–2012 period, assuming appropriation of the necessary amounts. Enacting H.R. 3020 would not affect direct spending or revenues.

H.R. 3020 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would benefit tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 3020 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By fiscal year, in millions of dollars—					
	2007	2008	2009	2010	2011	2012
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law:						
Budget Authority <sup>1</sup> .....	2	0	0	0	0	0

	By fiscal year, in millions of dollars—					
	2007	2008	2009	2010	2011	2012
Estimated Outlays .....	1	2	1	0	0	0
Proposed Changes:						
Estimated Authorization Level .....	0	2	2	2	2	2
Estimated Outlays .....	0	*	1	2	2	2
Spending Under H.R. 3020:						
Estimated Authorization Level <sup>1</sup> .....	2	2	2	2	2	2
Estimated Outlays .....	1	2	2	2	2	2

<sup>1</sup> The 2007 level is the amount appropriated for technical assistance grants under the PRIME program.  
Note.—\* = less than \$500,000.

Basis of estimate: For this estimate, CBO assumes that the bill will be enacted near the start of fiscal year 2008, the necessary amounts will be appropriated for each year, and that spending will follow historical patterns.

The PRIME program provides grants to nonprofit organizations to provide technical assistance to low-income owners of very small businesses (five employees or less). Although no specific amounts are authorized in the bill, CBO expects that annual appropriations for the PRIME program would continue over the 2008–2012 period equal to the amount appropriated in 2007, adjusted for inflation. The Congress appropriated \$2 million for technical assistance grants under the PRIME program in 2007. Assuming appropriation of the necessary amounts, CBO estimates that this provision would cost less than \$500,000 in 2008 and \$7 million over the 2008–2012 period.

Under current law, nonprofit lending organizations that make loans that average \$7,500 or less under SBA's microloan program are eligible to receive an interest rate reduction of 75 basis points below the interest rate charged to intermediaries making higher value loans.

H.R. 3020 would increase the maximum loan amount eligible for the interest rate reduction to \$10,000. Because more loans could receive a lower interest rate under the bill, CBO expects that this provision would lead to a minor increase in the subsidy rate for the microloan program. Because of the small volume of such loans, however, we estimate that the increased cost of this provision would be less than \$500,000 a year.

Intergovernmental and private-sector impact: H.R. 3020 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would authorize grants to tribal governments for microenterprise development. Any costs that those entities would incur would result from complying with conditions of federal assistance.

Estimate prepared by: Federal Costs: Susan Willie; Impact on State, Local, and Tribal Governments: Elizabeth Cove; Impact on the Private Sector: Jacob Kuipers.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

#### IX. COMMITTEE ESTIMATE OF COSTS

Clause 3(d)(2) of rule XIII of the Rules of the House of Representatives requires an estimate and a comparison by the Committee of the costs that would be incurred in carrying out H.R. 2389. However, clause 3(d)(3)(B) of that rule provides that this re-



quirement does not apply when the Committee has included in its report a timely submitted cost estimate of the bill prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act.

#### X. OVERSIGHT FINDINGS

In accordance with clause (2)(b)(1) of rule X of the Rules of the House of Representatives, the oversight findings and recommendations of the Committee on Small Business with respect to the subject matter contained in H.R. 3020 are incorporated into the descriptive portions of this report.

#### XI. STATEMENT OF CONSTITUTIONAL AUTHORITY

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in Article I, Section 8, clause 18, of the Constitution of the United States.

#### XII. COMPLIANCE WITH PUBLIC LAW 104-4

H.R. 3020 contains no unfunded mandates.

#### XIII. CONGRESSIONAL ACCOUNTABILITY ACT

H.R. 3020 does not relate to the terms and conditions of employment or access to public services or accommodations with the meaning of section 102(b)(3) of P.L. 104-1.

#### XIV. FEDERAL ADVISORY COMMITTEE STATEMENT

H.R. 3020 does not establish or authorize the establishment of any new advisory committees.

#### XV. STATEMENT OF NO EARMARKS

Pursuant to clause 9 of rule XXI, H.R. 3020 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(d), 9(e), or 9(f) of rule XXI.

#### XVI. PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

H.R. 3020 includes a number of provisions designed to update and to improve the Small Business Administration's microloan lending and technical assistance programs which specializes in the delivery of such assistance to very small, fledgling businesses. It incorporates the existing PRIME initiative into the Small Business Act, but makes no changes to the program which is also currently operated by the SBA.

#### XVII. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omit-

ted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

### SMALL BUSINESS ACT

\* \* \* \* \*  
SEC. 7.(a) \* \* \*

\* \* \* \* \*

(m) MICROLOAN PROGRAM.—

(1)(A) PURPOSES.—The purposes of the Microloan Program are—

(i) to assist women, low-income, veteran (within the meaning of such term under section 3(q)), *disabled*, and minority entrepreneurs and business owners and other individuals possessing the capability to operate successful business concerns;

\* \* \* \* \*  
(B) ESTABLISHMENT.—There is established a microloan program, under which the Administration may—

(i) make direct loans to eligible intermediaries, as provided under paragraph (3), for the purpose of making **[short-term,]** fixed interest rate microloans to startup, newly established, and growing small business concerns under paragraph (6);

\* \* \* \* \*  
(2) ELIGIBILITY FOR PARTICIPATION.—An intermediary shall be eligible to receive loans and grants under subparagraphs (B)(i) and (B)(ii) of paragraph (1) if it—

(A) meets the definition in **[paragraph (10)]** *paragraph (11)*; and

**[(B) has at least 1 year of experience making microloans to startup, newly established, or growing small business concerns and providing, as an integral part of its microloan program, intensive marketing, management, and technical assistance to its borrowers.]**

(B) *has—*

(i) *at least—*

(I) *1 year of experience making microloans to startup, newly established, or growing small business concerns; or*

(II) *1 full-time employee who has not less than 3 years experience making microloans to startup, newly established, or growing small business concerns; and*

(ii) *at least 1 year of experience providing, as an integral part of its microloan program, intensive marketing, management, and technical assistance to its borrowers.*

(3) LOANS TO INTERMEDIARIES.—

(A) \* \* \*

\* \* \* \* \*

(F) LOAN DURATION; INTEREST RATES.—

(i) \* \* \*

\* \* \* \* \*

(iii) RATES APPLICABLE TO CERTAIN SMALL LOANS.—Loans made by the Administration to an intermediary that makes loans to small business concerns and entrepreneurs averaging not more than **[\$7,500]** *\$10,000*, shall bear an interest rate that is 2 percentage points below the rate determined by the Secretary of the Treasury for obligations of the United States with a period of maturity of 5 years, adjusted to the nearest one-eighth of 1 percent.

\* \* \* \* \*

(4) MARKETING, MANAGEMENT AND TECHNICAL ASSISTANCE GRANTS TO INTERMEDIARIES.—Grants made in accordance with subparagraph (B)(ii) of paragraph (1) shall be subject to the following requirements:

(A) \* \* \*

\* \* \* \* \*

(E) ASSISTANCE TO CERTAIN SMALL BUSINESS CONCERNS.—

(i) IN GENERAL.—Each intermediary may expend an amount not to exceed **[25 percent]** *35 percent* of the grant funds received under paragraph (1)(B)(ii) to provide information and technical assistance to small business concerns that are prospective borrowers under this subsection.

(ii) TECHNICAL ASSISTANCE.—An intermediary may expend not more than **[25 percent]** *35 percent* of the funds received under paragraph (1)(B)(ii) to enter into third party contracts for the provision of technical assistance.

\* \* \* \* \*

(6) LOANS TO SMALL BUSINESS CONCERNS FROM ELIGIBLE INTERMEDIARIES.—

(A) \* \* \*

\* \* \* \* \*

(C) INTEREST LIMIT.—Notwithstanding any provision of the laws of any State or the constitution of any State pertaining to the rate or amount of interest that may be charged, taken, received, or reserved on a loan, the maximum rate of interest to be charged on a microloan funded under this subsection shall not exceed the rate of interest applicable to a loan made to an intermediary by the Administration—

(i) in the case of a loan of more than **[\$7,500]** *\$10,000* made by the intermediary to a small business concern or entrepreneur by more than 7.75 percentage points; and

(ii) in the case of a loan of not more than **[\$7,500]** *\$10,000* made by the intermediary to a small business

concern or entrepreneur by more than 8.5 percentage points.

\* \* \* \* \*

(11) DEFINITIONS.—For purposes of this subsection—  
 (A) \* \* \*

(B) the term “microloan” means a [short-term,] fixed rate loan of not more than \$35,000, made by an intermediary to a startup, newly established, or growing small business concern;

\* \* \* \* \*

(14) CREDIT REPORTING INFORMATION.—*The Administrator shall establish a process, for use by a lender making a loan to a borrower under this subsection, under which the lender provides to the major credit reporting agencies the information about the borrower that is relevant to credit reporting, such as the payment activity of the borrower on the loan.*

#### **SEC. 37. PRIME PROGRAM.**

(a) DEFINITIONS.—*For purposes of this section, the following definitions shall apply:*

(1) CAPACITY BUILDING SERVICES.—*The term “capacity building services” means services provided to an organization that is, or that is in the process of becoming, a microenterprise development organization or program, for the purpose of enhancing its ability to provide training and services to disadvantaged entrepreneurs.*

(2) DISADVANTAGED ENTREPRENEUR.—*The term “disadvantaged entrepreneur” means a microentrepreneur that is—*

(A) *a very low-income person;*

(B) *a low-income person; or*

(C) *an entrepreneur that lacks adequate access to capital or other resources essential for business success, or is economically disadvantaged, as determined by the Administrator.*

(3) COLLABORATIVE.—*The term “collaborative” means 2 or more nonprofit entities that agree to act jointly as a qualified organization under this section.*

(4) INDIAN TRIBE.—*The term “Indian tribe” means any Indian tribe, band, pueblo, nation, or other organized group or community, including any Alaska Native village or regional or village corporation, as defined in or established pursuant to the Alaska Native Claims Settlement Act, which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.*

(5) INTERMEDIARY.—*The term “intermediary” means a private, nonprofit entity that seeks to serve microenterprise development organizations and programs as authorized under subsection (d).*

(6) LOW-INCOME PERSON.—*The term “low-income person” means a person having an income, adjusted for family size, of not more than—*

(A) *for metropolitan areas, 80 percent of the area median income; and*

- (B) for nonmetropolitan areas, the greater of—  
 (i) 80 percent of the area median income; or  
 (ii) 80 percent of the statewide nonmetropolitan area median income.

(7) **MICROENTREPRENEUR.**—The term “microentrepreneur” means the owner or developer of a microenterprise.

(8) **MICROENTERPRISE.**—The term “microenterprise” means a sole proprietorship, partnership, or corporation that—

(A) has fewer than 5 employees; and

(B) generally lacks access to conventional loans, equity, or other banking services.

(9) **MICROENTERPRISE DEVELOPMENT ORGANIZATION OR PROGRAM.**—The term “microenterprise development organization or program” means a nonprofit entity, or a program administered by such an entity, including community development corporations or other nonprofit development organizations and social service organizations, that provides services to disadvantaged entrepreneurs.

(10) **POVERTY LINE.**—The term “poverty line” means the official poverty line defined by the Office of Management and Budget based on the most recent data available from the Bureau of the Census. The Administrator shall revise annually (or at any shorter interval the Administrator determines to be feasible and desirable) the poverty line. The required revision shall be accomplished by multiplying the official poverty line by the percentage change in the Consumer Price Index for All Urban Consumers during the annual or other interval immediately preceding the time at which the revision is made.

(11) **TRAINING AND TECHNICAL ASSISTANCE.**—The term “training and technical assistance” means services and support provided to disadvantaged entrepreneurs, such as assistance for the purpose of enhancing business planning, marketing, management, financial management skills, and assistance for the purpose of accessing financial services.

(12) **VERY LOW-INCOME PERSON.**—The term “very low-income person” means having an income, adjusted for family size, of not more than 150 percent of the poverty line.

(b) **ESTABLISHMENT OF PROGRAM.**—The Administrator shall establish a microenterprise technical assistance and capacity building grant program to provide assistance from the Administration in the form of grants to qualified organizations in accordance with this section.

(c) **USES OF ASSISTANCE.**—A qualified organization shall use grants made under this section—

(1) to provide training and technical assistance to disadvantaged entrepreneurs;

(2) to provide training and capacity building services to microenterprise development organizations and programs and groups of such organizations to assist such organizations and programs in developing microenterprise training and services;

(3) to aid in researching and developing the best practices in the field of microenterprise and technical assistance programs for disadvantaged entrepreneurs; and

(4) for such other activities as the Administrator determines are consistent with the purposes of this section.

(d) *QUALIFIED ORGANIZATIONS.*—For purposes of eligibility for assistance under this section, a qualified organization shall be—

(1) a nonprofit microenterprise development organization or program (or a group or collaborative thereof) that has a demonstrated record of delivering microenterprise services to disadvantaged entrepreneurs;

(2) an intermediary;

(3) a microenterprise development organization or program that is accountable to a local community, working in conjunction with a State or local government or Indian tribe; or

(4) an Indian tribe acting on its own, if the Indian tribe can certify that no private organization or program referred to in this paragraph exists within its jurisdiction.

(e) *ALLOCATION OF ASSISTANCE; SUBGRANTS.*—

(1) *ALLOCATION OF ASSISTANCE.*—

(A) *IN GENERAL.*—The Administrator shall allocate assistance from the Administration under this section to ensure that—

(i) activities described in subsection (c)(1) are funded using not less than 75 percent of amounts made available for such assistance; and

(ii) activities described in subsection (c)(2) are funded using not less than 15 percent of amounts made available for such assistance.

(B) *LIMIT ON INDIVIDUAL ASSISTANCE.*—No single person may receive more than 10 percent of the total funds appropriated under this section in a single fiscal year.

(2) *TARGETED ASSISTANCE.*—The Administrator shall ensure that not less than 50 percent of the grants made under this section are used to benefit very low-income persons, including those residing on Indian reservations.

(3) *SUBGRANTS AUTHORIZED.*—

(A) *IN GENERAL.*—A qualified organization receiving assistance under this section may provide grants using that assistance to qualified small and emerging microenterprise organizations and programs, subject to such rules and regulations as the Administrator determines to be appropriate.

(B) *LIMIT ON ADMINISTRATIVE EXPENSES.*—Not more than 7.5 percent of assistance received by a qualified organization under this section may be used for administrative expenses in connection with the making of subgrants under subparagraph (A).

(4) *DIVERSITY.*—In making grants under this section, the Administrator shall ensure that grant recipients include both large and small microenterprise organizations, serving urban, rural, and Indian tribal communities serving diverse populations.

(5) *PROHIBITION ON PREFERENTIAL CONSIDERATION OF CERTAIN SBA PROGRAM PARTICIPANTS.*—In making grants under this section, the Administrator shall ensure that any application made by a qualified organization that is a participant in the program established under section 7(m) does not receive preferential consideration over applications from other qualified organizations that are not participants in such program.

(f) *MATCHING REQUIREMENTS.*—

(1) *IN GENERAL.*—Financial assistance under this section shall be matched with funds from sources other than the Federal Government on the basis of not less than 50 percent of each dollar provided by the Administration.

(2) *SOURCES OF MATCHING FUNDS.*—Fees, grants, gifts, funds from loan sources, and in-kind resources of a grant recipient from public or private sources may be used to comply with the matching requirement in paragraph (1).

(3) *EXCEPTION.*—

(A) *IN GENERAL.*—In the case of an applicant for assistance under this section with severe constraints on available sources of matching funds, the Administrator may reduce or eliminate the matching requirement in paragraph (1).

(B) *LIMITATION.*—Not more than 10 percent of the total funds made available from the Administration in any fiscal year to carry out this section may be excepted from the matching requirement in paragraph (1), as authorized by subparagraph (A).

(g) *APPLICATIONS FOR ASSISTANCE.*—An application for assistance under this section shall be submitted in such form and in accordance with such procedures as the Administrator shall establish.

(h) *RECORDKEEPING.*—

(1) *IN GENERAL.*—A qualified organization receiving assistance from the Administration under this section shall keep such records, for such periods as may be prescribed by the Administrator and necessary to disclose the manner in which any assistance under this section is used and to demonstrate compliance with the requirements of this section.

(2) *USER PROFILE INFORMATION.*—The Administrator shall require each qualified organization receiving assistance from the Administration under this section to compile such data, as is determined to be appropriate by the Administrator, on the gender, race, ethnicity, national origin, or other pertinent information concerning individuals that utilize the services of the assisted organization to ensure that targeted populations and low-income residents of investment areas are adequately served.

(3) *ACCESS TO RECORDS.*—The Administrator shall have access on demand, for the purpose of determining compliance with this section, to any records of a qualified organization that receives assistance from the Administration under this section.

(4) *REVIEW.*—Not less than annually, the Administrator shall review the progress of each assisted organization in carrying out its strategic plan, meeting its performance goals, and satisfying the terms and conditions of its assistance agreement.

(5) *REPORTING.*—

(A) *ANNUAL REPORTS.*—The Administrator shall require each qualified organization receiving assistance from the Administration under this section to submit an annual report to the Administrator on its activities, its financial condition, and its success in meeting performance goals, in satisfying the terms and conditions of its assistance agreement, and in complying with other requirements of this section, in such form and manner as the Administrator shall specify.

(B) *AVAILABILITY OF REPORTS.*—The Administrator, after deleting or redacting any material as appropriate to protect privacy or proprietary interests, shall make such reports submitted under subparagraph (A) available for public inspection.

(i) *IMPLEMENTATION.*—The Administrator shall, by regulation, establish such requirements as may be necessary to carry out this section.

SEC. [37] 99. All laws and parts of laws inconsistent with this Act are hereby repealed to the extent of such inconsistency.

## **SUBTITLE C OF TITLE I OF THE RIEGLE COMMUNITY DEVELOPMENT AND REGULATORY IMPROVEMENT ACT OF 1994**

### **[Subtitle C—Microenterprise Technical Assistance and Capacity Building Program**

#### **[SEC. 171. SHORT TITLE.**

[This subtitle may be cited as the “Program for Investment in Microentrepreneurs Act of 1999”, also referred to as the “PRIME Act”.

#### **[SEC. 172. DEFINITIONS.**

[For purposes of this subtitle, the following definitions shall apply:

[(1) **ADMINISTRATION.**—The term “Administration” means the Small Business Administration.

[(2) **ADMINISTRATOR.**—The term “Administrator” means the Administrator of the Small Business Administration.

[(3) **CAPACITY BUILDING SERVICES.**—The term “capacity building services” means services provided to an organization that is, or that is in the process of becoming, a microenterprise development organization or program, for the purpose of enhancing its ability to provide training and services to disadvantaged entrepreneurs.

[(4) **COLLABORATIVE.**—The term “collaborative” means 2 or more nonprofit entities that agree to act jointly as a qualified organization under this subtitle.

[(5) **DISADVANTAGED ENTREPRENEUR.**—The term “disadvantaged entrepreneur” means a microentrepreneur that is—

[(A) a low-income person;

[(B) a very low-income person; or

[(C) an entrepreneur that lacks adequate access to capital or other resources essential for business success, or is economically disadvantaged, as determined by the Administrator.

[(6) **INDIAN TRIBE.**—The term “Indian tribe” has the meaning given the term in section 103.

[(7) **INTERMEDIARY.**—The term “intermediary” means a private, nonprofit entity that seeks to serve microenterprise development organizations and programs as authorized under section 175.



[(8) LOW-INCOME PERSON.—The term “low-income person” has the meaning given the term in section 103.

[(9) MICROENTREPRENEUR.—The term “microentrepreneur” means the owner or developer of a microenterprise.

[(10) MICROENTERPRISE.—The term “microenterprise” means a sole proprietorship, partnership, or corporation that—

[(A) has fewer than 5 employees; and

[(B) generally lacks access to conventional loans, equity, or other banking services.

[(11) MICROENTERPRISE DEVELOPMENT ORGANIZATION OR PROGRAM.—The term “microenterprise development organization or program” means a nonprofit entity, or a program administered by such an entity, including community development corporations or other nonprofit development organizations and social service organizations, that provides services to disadvantaged entrepreneurs.

[(12) TRAINING AND TECHNICAL ASSISTANCE.—The term “training and technical assistance” means services and support provided to disadvantaged entrepreneurs, such as assistance for the purpose of enhancing business planning, marketing, management, financial management skills, and assistance for the purpose of accessing financial services.

[(13) VERY LOW-INCOME PERSON.—The term “very low-income person” means having an income, adjusted for family size, of not more than 150 percent of the poverty line (as defined in section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2)), including any revision required by that section).

**[SEC. 173. ESTABLISHMENT OF PROGRAM.**

[The Administrator shall establish a microenterprise technical assistance and capacity building grant program to provide assistance from the Administration in the form of grants to qualified organizations in accordance with this subtitle.

**[SEC. 174. USES OF ASSISTANCE.**

[A qualified organization shall use grants made under this subtitle—

[(1) to provide training and technical assistance to disadvantaged entrepreneurs;

[(2) to provide training and capacity building services to microenterprise development organizations and programs and groups of such organizations to assist such organizations and programs in developing microenterprise training and services;

[(3) to aid in researching and developing the best practices in the field of microenterprise and technical assistance programs for disadvantaged entrepreneurs; and

[(4) for such other activities as the Administrator determines are consistent with the purposes of this subtitle.

**[SEC. 175. QUALIFIED ORGANIZATIONS.**

[For purposes of eligibility for assistance under this subtitle, a qualified organization shall be—

[(1) a nonprofit microenterprise development organization or program (or a group or collaborative thereof) that has a demonstrated record of delivering microenterprise services to disadvantaged entrepreneurs;

[(2) an intermediary;

[(3) a microenterprise development organization or program that is accountable to a local community, working in conjunction with a State or local government or Indian tribe; or

[(4) an Indian tribe acting on its own, if the Indian tribe can certify that no private organization or program referred to in this paragraph exists within its jurisdiction.

**[SEC. 176. ALLOCATION OF ASSISTANCE; SUBGRANTS.**

[(a) ALLOCATION OF ASSISTANCE.—

[(1) IN GENERAL.—The Administrator shall allocate assistance from the Administration under this subtitle to ensure that—

[(A) activities described in section 174(1) are funded using not less than 75 percent of amounts made available for such assistance; and

[(B) activities described in section 174(2) are funded using not less than 15 percent of amounts made available for such assistance.

[(2) LIMIT ON INDIVIDUAL ASSISTANCE.—No single person may receive more than 10 percent of the total funds appropriated under this subtitle in a single fiscal year.

[(b) TARGETED ASSISTANCE.—The Administrator shall ensure that not less than 50 percent of the grants made under this subtitle are used to benefit very low-income persons, including those residing on Indian reservations.

[(c) SUBGRANTS AUTHORIZED.—

[(1) IN GENERAL.—A qualified organization receiving assistance under this subtitle may provide grants using that assistance to qualified small and emerging microenterprise organizations and programs, subject to such rules and regulations as the Administrator determines to be appropriate.

[(2) LIMIT ON ADMINISTRATIVE EXPENSES.—Not more than 7.5 percent of assistance received by a qualified organization under this subtitle may be used for administrative expenses in connection with the making of subgrants under paragraph (1).

[(d) DIVERSITY.—In making grants under this subtitle, the Administrator shall ensure that grant recipients include both large and small microenterprise organizations, serving urban, rural, and Indian tribal communities serving diverse populations.

[(e) PROHIBITION ON PREFERENTIAL CONSIDERATION OF CERTAIN SBA PROGRAM PARTICIPANTS.—In making grants under this subtitle, the Administrator shall ensure that any application made by a qualified organization that is a participant in the program established under section 7(m) of the Small Business Act does not receive preferential consideration over applications from other qualified organizations that are not participants in such program.

**[SEC. 177. MATCHING REQUIREMENTS.**

[(a) IN GENERAL.—Financial assistance under this subtitle shall be matched with funds from sources other than the Federal Government on the basis of not less than 50 percent of each dollar provided by the Administration.

[(b) SOURCES OF MATCHING FUNDS.—Fees, grants, gifts, funds from loan sources, and in-kind resources of a grant recipient from

public or private sources may be used to comply with the matching requirement in subsection (a).

**[(c) EXCEPTION.—**

**[(1) IN GENERAL.—**In the case of an applicant for assistance under this subtitle with severe constraints on available sources of matching funds, the Administrator may reduce or eliminate the matching requirements of subsection (a).

**[(2) LIMITATION.—**Not more than 10 percent of the total funds made available from the Administration in any fiscal year to carry out this subtitle may be excepted from the matching requirements of subsection (a), as authorized by paragraph (1) of this subsection.

**[SEC. 178. APPLICATIONS FOR ASSISTANCE.**

**[**An application for assistance under this subtitle shall be submitted in such form and in accordance with such procedures as the Administrator shall establish.

**[SEC. 179. RECORDKEEPING.**

**[**The requirements of section 115 shall apply to a qualified organization receiving assistance from the Administration under this subtitle as if it were a community development financial institution receiving assistance from the Fund under subtitle A.

**[SEC. 180. AUTHORIZATION.**

**[**In addition to funds otherwise authorized to be appropriated to the Fund to carry out this title, there are authorized to be appropriated to the Administrator to carry out this subtitle—

**[(1)** \$15,000,000 for fiscal year 2000;

**[(2)** \$15,000,000 for fiscal year 2001;

**[(3)** \$15,000,000 for fiscal year 2002; and

**[(4)** \$15,000,000 for fiscal year 2003.

**[SEC. 181. IMPLEMENTATION.**

**[**The Administrator shall, by regulation, establish such requirements as may be necessary to carry out this subtitle.**]**